Bloomberg News

U.S. Recession Is Now an Even Bet as Spending Slows

By Shobhana Chandra and Andy Burt

Feb. 8 (Bloomberg) -- A U.S. recession is now an even bet as job losses and the housing contraction jeopardize the longest- ever expansion in consumer spending, according to a Bloomberg News survey.

The world's largest economy will grow at a 0.5 percent annual rate from January through March, capping the weakest six months since the last economic slump in 2001, according to the median estimate of 62 economists polled from Jan. 30 to Feb. 7.

Federal Reserve Chairman Ben S. Bernanke will lower the benchmark interest rate a further half point by June, adding to the fastest easing since at least 1990, the survey showed. The odds of a recession over the next 12 months, pegged at 40 percent in the January survey, jumped to 50 percent as payrolls, auto sales and stocks slumped.

``Consumers are squeezed on many fronts,'' Kurt Karl, chief U.S. economist at Swiss Re in New York, the world's largest reinsurer, said in a Bloomberg Television interview. A recession ``could have started already or is likely to start very soon. We're slipping.''

The anticipated rate of expansion for all of 2008 was reduced to 1.7 percent, the lowest in six years. Economists also slashed the projected growth rate for the second quarter to 1 percent from the 1.8 percent forecast last month.

Treasury securities rose, with yields on benchmark 10-year notes falling to 3.69 percent at 9:50 a.m. in New York from 3.76 percent late yesterday. Yields dropped more than 1 percentage point in the past six months as the economy deteriorated.

Spending Slows

Consumer spending, which accounts for more than two-thirds of the economy, will grow at a 1 percent annual rate from January through March, half the previous quarter's gain and the smallest since 2001. The last time spending dropped was in 1991.

``We're on the cusp of a recession,'' said Stephen Stanley, chief economist at RBS Greenwich Capital in Greenwich, Connecticut. ``Support from the labor market is starting to erode. The consumer is definitely in for a period of weakness.''

Stanley is among a growing number of economists who project spending will fall at some point this year. The last recession was from March to November 2001, according to the National Bureau of Economic Research. The Cambridge, Massachusetts-based group is the official arbiter of American business cycles.

The economy lost 17,000 jobs in January, the first drop in more than four years. The unemployment rate will gradually rise to 5.2 percent by the second quarter of 2008, according to the survey median, from last month's 4.9 percent.

Automakers' Pain

Five of the top six automakers in the U.S., including Ford Motor Co. and Toyota Motor Corp., posted a drop in U.S. sales in January, reinforcing forecasts that industry sales will fall this year to the lowest since 1998.

``If the job market is drying up, which seems to be the case, consumers have nothing going for them,'' said Joshua Shapiro, chief U.S. economist at Maria Fiorini Ramirez Inc. in New York.

Big-ticket items aren't the only ones taking a hit. Retail sales at stores open at least a year rose 0.5 percent last month, the worst January since 1970, the International Council of Shopping Centers said yesterday. Discounts failed to avert declines at chains from Target Corp. to Nordstrom Inc.

``It is a difficult retail environment out there, and I expect it will be going forward,'' Terry Lundgren, chief executive officer of Macy's Inc., the second-biggest U.S. department-store chain, said this week. The retailer cut its fourth-quarter profit forecast and said it will eliminate 2,300 jobs.

Housing Bust

Meanwhile, the housing industry is bracing for even worse times ahead. The National Association of Realtors yesterday cut its 2008 forecast for sales of previously owned and new homes.

In a sign the slowdown is spreading beyond housing, service industries unexpectedly contracted in January at the fastest pace since the 2001 recession, a report from the Institute for Supply Management showed on Feb. 5. U.S. stocks tumbled the most in 11 months that day. The Standard & Poor's 500 Index is down for three consecutive months, the longest losing streak since 2003.

Richmond Fed President Jeffrey Lacker said this week he sees ``the possibility of a mild recession,'' and further rate reductions may be needed.

San Francisco Fed President Janet Yellen said yesterday the U.S. economy will probably avoid a recession. She said the Fed's interest-rate cuts should help growth pick up later in the year.

Second-Half Pick-Up

Dallas Fed President Richard Fisher, speaking in Mexico City yesterday, also said the expansion was poised to return to its long-term trend in the second half of the year because of the rate cuts.

Economists in the Bloomberg survey forecast the Fed will trim the benchmark rate by a quarter point to 2.75 percent this quarter. Investors are betting policy makers will do more and cut the rate by a half point to 2.5 percent on or before the March 18 meeting, futures trading shows.

The central bank cut the rate by 1.25 point to 3 percent over nine days last month, including an emergency move on Jan. 22, the fastest reduction since the federal funds rate became the main policy tool around 1990.

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Last Updated: February 8, 2008 10:01 EST